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Draft : A report card and assessment of Iowa's school finance plan, 1993-94.

DRAFT*

*Some revisions and additions are being made in preparation for publication by ISE. --G. Chambers 11/10/93

A REPORT CARD AND ASSESSMENT

OF IOWA'S SCHOOL FINANCE PLAN, 1993-94

Submitted to the
Institute for School Executives

November 5, 1993

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A REPORT CARD AND ASSESSMENT OF IOWA'S SCHOOL FINANCE PLAN, 1993-94
Institute for School Executives Seminar - November 5, 1993
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Introduction

Today I wish to share with you my thoughts regarding Iowa's current school finance plan. To do this I am electing to present a report card and an assessment. The only guarantee I make to you is that the comments represent my best thinking at this time and that all errors and omissions belong to George Chambers. The opinions expressed are mine--not those of ISE, nor The University of Iowa.

I believe the time has come for all of us to speak out. I know that I have been too silent, too long. The seeming beautiful finance baby conceived in 1971, born on July 1, 1972, is now 21 years old and not in good health. The poor thing has undergone constant annual reconstructive surgery in Des Moines. The majority of corrective finance surgeons in the General Assembly has been well intentioned, but untrained. Many surgical procedures have been carried out without a diagnosis or knowledge of the real ailment. The potential outcomes resulting from the surgery too often have not been considered. New teams of untrained surgeons have arrived for duty each two years. They have cut, amputated, added, bled, transfused, mangled, and prescribed. Suffice it to say that the beautiful finance baby of 1972 is now 21 years of age, complex, complicated, confused, and not in good health. Worse, it has a killing cancer that is growing rapidly and one that too many have failed to detect. A new health care plan clearly will not help.

Similar to an individual's health, the causes of poor health for a state's school finance plan are well known, easily identified, but ignored by most. The older the state plan the greater the probability that there are severe problems. That is the case of Iowa's state school finance plan at age

21, which is relatively quite old. It is easy to become depressed over the prospects of financing Iowa schools over the next several years--perhaps as depressed as one of our former presidents who was having great problems with the presidency.

DEPRESSED PRESIDENT

Purposes in Submitting a Report Card

1. To bring attention to current aspects of the plan that are: a) unfair, or b) inadequate, or c) disruptive to good administration.

2. To refresh and enhance your understanding of principles and techniques for assessment of a state school finance plan.

3. To present arguments regarding the need to consider a totally new Iowa school finance plan and/or a constitutional challenge to the current Iowa state school finance plan.

4. To recommend an interim procedure to assist Iowa districts until a new state plan can be enacted.

Basis for Assessment

1. Three basic approaches can be utilized in any assessment: a) comparison with others, b) comparison with self, the past, c) comparison with a predetermined standard.

2. The assessment presented here will focus upon predetermined standards or principles to which I subscribe. In a few cases it will be necessary to utilize a comparison with what has been done previously. I have elected not to enter into interstate comparisons, i.e., Iowa with other states. Such comparisons are difficult to make, frequently inappropriate, meaningless, and tend to give a false sense of advantage or disadvantage. Few state plans, if

any, are worthy of serving as a model.

3. The predetermined standards or criteria that are utilized for my assessment and for grade assignments in the report card include: a) fairness-unfairness to students and to taxpayers, b) adequacy-inadequacy to education and districts, and c) enhanced-neutral-or destructive impact upon the administrative processes.

Difficulties of Change

There are several reasons why it is difficult to change a state school finance plan. Among legislators, school administrators and school board members there is comfort arising from familiarity. Seldom do we like to learn a new plan or system. Second and more important, there is the feeling of current plan ownership on the part of many legislators, members of the executive branch, support staff, and in some cases selected professional groups and school administrators. (Explanation) Therefore an attack upon a given element of "the" plan is an attack upon the individual or individuals who created that particular element of the plan. Third, there is always fear, justifiable so that the next plan could be worse. Fourth, most new plans cost more money. Fifth, in most cases, change often requires playing the zero sum game. That is, for every winner there is a loser of equal magnitude. Assuming that half the districts in a state or half the pupils within districts are advantaged and half are disadvantaged, you can see the difficulty of modifying an existing plan. The winners are happy, the losers are discontent, but perhaps those who fall slightly below the average in disadvantaged (say down to the 40th percentile or even the 33rd, may not be that greatly disadvantaged). Therefore, when one attempts to bring about change, two-thirds or more of those impacted directly may not be enthused about a change. I would expect this to be the case of the Iowa school finance

plan as we know it in 1993-94. Sixth, data that are presented in the form of percentages in dollar amounts are disarming and too frequently lack focus. For example, in Iowa if we were to say that 90% of the pupils are provided with good to excellent programs, one would tend to have a feeling of wellness, of fairness. However, if one were to state that 49,700 pupils in Iowa (which is approximately 10%) are denied equal educational opportunity or that their educational programs are lacking or inadequate, an entirely different assessment would result. In short, assessment in school finance or any area is dependent upon one's personal views and beliefs. As stated before, my beliefs are based primarily upon predetermined standards and principles which have become part of my thinking in working in the area of school finance over the past 30 years.

Dimensions for Viewing Fairness/Equity

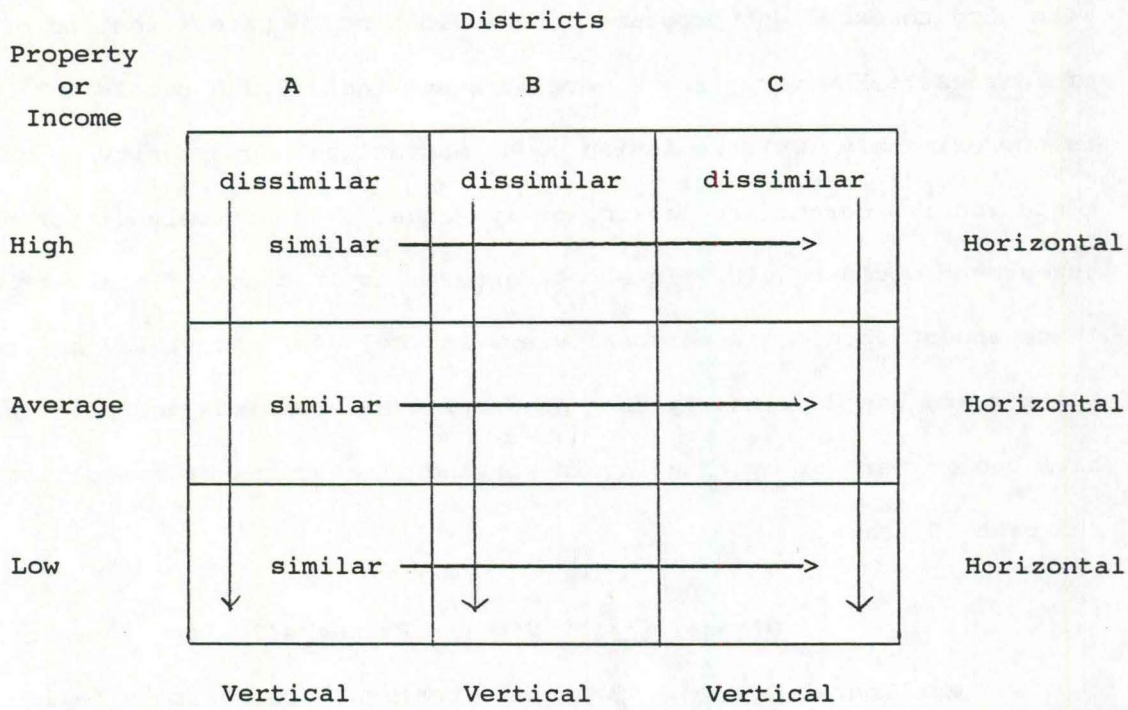
A. Horizontal Equity - The equal treatment of equals is fair. This can be based upon individual's income levels, property holdings, etc.

B. Vertical Equity - The unequal treatment of unequals is fair. This could also be based upon income levels, property holds, etc.

Present Chart 1.0, 1.1, 1.2

CHART 1.0

HORIZONTAL/VERTICAL EQUITY



Horizontal Equity--equal treatment of equals is fair.

Vertical Equity--unequal treatment of unequals is fair.

CHART 1.1

IOWA'S SCHOOL PLAN--POOR HORIZONTAL & VERTICAL TAXPAYER EQUITY

Assume District 1 has $200,000 property valuation
District 2 has $150,000 property valuation
District 3 has $100,000 property valuation

Individuals High hold $500,000 property
Medium $100,000
Low $40,000

For operating fund cost of $3,500

Tax Levy:	District 1	$8.375
	District 2	9.367
	District 3	11.350

IOWA

Districts

Individuals	1 $200,000 average	2 $150,000 average	3 $100,000 average
H $500,000 property	$4,188	$4,684	$5,675
M $100,000 property	$838	$937	$1,135
L $40,000 property	$330	$375	$454

CHART 1.2

PLAN WITH HORIZONTAL & VERTICAL TAX EQUITY

Individuals	Districts: High Property 1	Medium Property 2	Low Property 3	Horizontal
High	$4,684	$4,684	$4,684	$H_1=H_2=H_3$
Medium	$937	$937	$937	$M_1=M_2=M_3$
Low	$375	$375	$375	$L_1=L_2=L_3$

<u>Vertical</u> H > M > L taxes greater in proportion to property

District	Property Valuation	Property Holding	
1	$200,000	High	$500,000
2	$150,000	Medium	$100,000
3	$100,000	Low	$40,000

Spend $3,500 - full state equalization

School Finance Equity Measurements

1. Traditional measures include the coefficient of variation, federal range ratio, McLoone Index, Gini coefficient, correlation, and elasticity.

2. Iowa looks excellent to good on the above gross measures which are typically utilized for both inter and intra state comparisons.

3. So what's wrong? I submit that measurements in school finance, such as the above, gloss over the magnitude of the problems.

When you hear that Iowa is excellent to good with regard to financing its schools, please consider the following: expenditures among districts varying from $100 to $500 to $1,000 to $1,500, tax rates vary from $9.00 to $22.00, the so-called regular program cost guarantee per district varies by over $400 when children arrive at the schoolhouse door. This difference is created by paying for transportation costs from the regular program cost allowance.

Clearly, state school finance statistics fail to recognize such important differences and as all of you know a $300 or $200 or $100 difference at the schoolhouse door becomes great when the child enters the classroom door. Many will suggest not fussing over $300. I have and I will continue to fuss; consider please that $300 per pupils with a pupil-teacher ratio of 20:1 is worth $6,000 of advantage or disadvantage per classroom unit; a $200 difference $4,000 and $100 difference $2,000 per classroom unit.

The inequities that arise from differences in property wealth among Iowa school districts unfortunately are many fold greater than those arising from transportation cost differentials. The positive relationship (correlation) that existed in 1963 between expenditures and a district's property value is approximately the same in 1993--about .6. I repeat the same statistical relationship 30 years later. In 1963 we had only flat grant state aid. We have what is labeled an equalization formula today--too bad it equalizes so little.

Today educational opportunities in Iowa districts are directly related to property wealth and/or demographics. As economist Charles Benson stated over 30 years ago, "A child's educational opportunity is directly related to the accident of the birthplace." In Iowa, we must adopt ways of neutralizing and overcoming the negatives arising from property wealth and demographics. More detail on this later.

Story of Pope's Visit to New York City

Who has been driving Iowa's state school finance plan? The answer varies over the past 20 years and nominees include Iowa's two governors, the former state controller, the Iowa General Assembly, ISEA, IASB, Farm Bureau, PURE (People United for Rural Education), Iowans for Tax Relief, and so on. Various drivers have gotten behind the wheel on specific issues of interest to them. Please notice the absence from the list of SAI.

Clearly, SAI has pushed hard in many situations and has attempted to establish road blocks when appropriate. However, as administrators we have not been in the driver's seat and perhaps we never will be. We must find ways of driving, or influencing the drivers, or establishing the routes to be driven. This topic will be explored at the breakfast session tomorrow morning.

Clearly many have been taken for a ride. Sometimes it has been the student, other times the school administrators, the teachers, or the taxpayers.

Let us now turn our attention to the report card. All of you should have at your table a report card with blanks for grade to be assigned by this presenter and by you. Would you please turn your attention now to that report card.

The first section of the report card focuses upon basic economic and

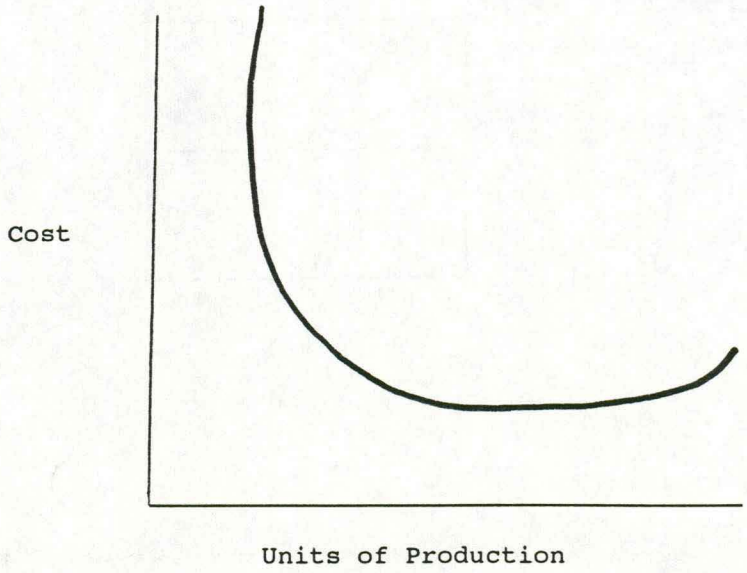
business principles--recognition and application. Education in Iowa is a big business. We directly employ over 50 thousand full- and part-time employees, serve nearly a half million students, and expend in excess of 2 billion dollars, of which over one billion comes from the state's general fund. Given the magnitude of the educational enterprise it makes sense to base operations in school finance upon long-standing and accepted standards and principles of economics and business.

1. Economy of Scale--Show Chart 2.0

The principle holds that as the units of production increase the cost per unit decreases. In Iowa we fail to recognize or acknowledge economy of scale. Regardless of the size of the district or a particular operation be it 300, 3,000, or 30,000 students, it is assumed that cost per unit should be the same. No one in business would expect to hold branch stores to this concept, be it Hy-Vee, Caseys, Walgreens, Wal-mart, or K-mart. Size makes a difference and in fairness the factor must be recognized. **GRADE F**

CHART 2.0

ECONOMY OF SCALE

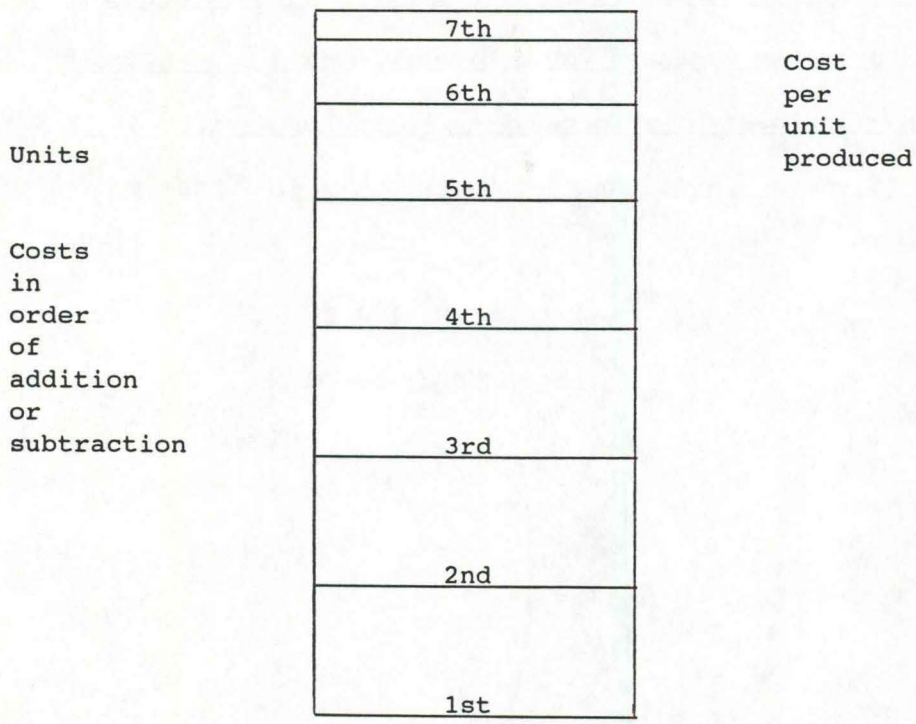


2. Incremental Costs--Show Chart 3.0

The principle holds that for each unit added or subtracted from the production base, the cost of each unit added or subtracted is less than the average cost of previous units produced. Iowa has elected to ignore this basic principle. In Iowa when making an addition or subtraction we treat the unit cost as the same, as the average. Open enrollment is a good example. (Give example. **GRADE F**

CHART 3.0

INCREMENTAL COSTS



3. Gross National Product

By definition GNP is the value of all goods and services produced in the United States after a price level adjustment is made (implicit deflator). The percent of growth is calculated in relationship to the previous base year. Iowa's response for over a decade was that the value of goods and services produced in the United States would be the rate at which spending for Iowa's schools would occur. Why didn't we attack this ridiculous and false thinking? **GRADE F**

CONSPIRACY THEORY EXPLAIN - TIME PERMITTING

4. Variable Unit Cost

The cost of the unit produced varies with the cost of inputs; therefore, unit costs and inputs vary. Iowa's response--Do not recognize variable costs. Dollars generated by the state plan are equal per pupil without regard to grade level or academic program. Thus, the state considers the cost for kindergarten, fourth grade, eighth grade, and twelfth grade to be identical. Further, the cost of a student in the kindergarten program would be the same as a student in a vocational program in high school. School districts in Iowa vary with regard to students to be served, inputs needed, and resulting unit costs. Clearly, Iowa has chosen the easy route. Most of you engaged in one- or two-way sharing agreements, I am certain, do not utilize the same cost basis for elementary students, junior and senior high school students. **GRADE F**

5. Truth in Labeling

The standard holds that consumer protection is essential and requires valid specific information relative to the contents or use of the item. In 1976 Iowa public schools were said to have claimed 36% of the state's general fund revenues (34% in adjusted state aid and 2% for property tax relief); in

1991, public schools had 34% of the state's general fund but adjusted state aid had fallen to 27% and property tax relief had risen to 7%. (Data analysis provided by M.J. Dolan, IASB).

The claim by the executive branch and by legislators that today a greater percent of the state's budget goes to education than in years past is not true. Even if education were assigned 40% of the 7% tax relief appropriations (say 3% of the 7%), education had nearly a 15% decrease in its share of the state budget from 1976 to 1991 (i.e., 1991 27 + 2.8 = 29.8% versus 34.8% (i.e. 34 + .4 x 2%).

I submit to you that, education has been utilized as a vehicle for distributing property tax relief to off-set increases in property tax for cities, counties, as well as school districts. Property tax relief is just that--tax relief, not school aid. We have been shouldered with the majority of blame for property tax increases. Our share of the annual tax increase has been slight to a reduction in the vast majority of cases. Furthermore, at most we should only be credited or discredited with but about 40% of the 7% property tax relief.

Why the fuss, Professor? Answer: Because the 7% equals over $200 million and is approximately 20% of the dollars credited as aid to education, i.e. (.34 x .21 = .071). The $200 million reduces property taxes each year. It has not nor does it now aid education. Let's call it, label it as it is. The spin doctors are not limited to the nation's capital! My friends, they are here in River City country.

Property taxes for schools represent but 40% of the property tax bill. The other 60% should be credited as aid for property tax relief to cities and counties. The Chambers' reasoning is that school districts have been utilized as the vehicle or agency for the distribution mechanism for massive property tax relief monies since 1972. Clearly it is simpler to equalize tax levies

through school districts than any other agency. This is true because school districts go into every city, rural area, and county in the state. Districts offer a simplified property base to provide some tax relief and equalization. **GRADE F**

6. Equalization Modification--Grade F

The standard of fairness holds that any increase or decrease in funding for equalization should be made in a consistent or uniform manner. Iowa allocates increases in state aid in inverse proportion to property wealth. However, when decrease funding or cutbacks in state aid are necessary they have not been made in an inverse fashion. Rather, they have been made in direct proportion to the total state aid payment. This has resulted in property-wealthy districts having small state aid cutbacks which were easily restored by levy. Property-poor districts had large state aid losses which if restored required sizeable levies. E.g., $100,000 and $200,000 assessed valuation per pupil, the poorest district loses $75 in state aid, the wealthier $55. If cutbacks are restored by levy, it would require nearly 300% greater taxation in the poorer district than in the wealthier district. Fair? No. Why? It's easier that way. Yes just easier. I do know that the Governor has been notified by key legislators of the unfairness of his scheme. Those pleadings and warnings have been ignored. It's easier. **GRADE F**

7. Production Factors of Quality and Quantity Principle

Increases in the quantity and quality of production cannot be made without typically requiring added investment and/or off-setting decreases in the quality or quantity of other units of production. Do more--do better without added investment or off-setting reductions, i.e., add personnel and curriculum to meet new state standards without additional dollars while increasing outcomes and maintaining previous programs and services. That's "Mission Impossible." Increasing school standards presumes to enhance quality.

This cannot be done effectively without either increasing investments or making reductions elsewhere. These basic facts of life in the business world have been too frequently ignored by the Iowa General Assembly. We in education do not object to change, to increased standards if money to carry out those standards is provided or we can selectively reduce services which may require setting aside earlier standards. Our efforts in this area have failed. **GRADE F**

8. Income as Ability to Pay Measure

Income is an acknowledge criterion measure of ability to pay. Iowa has basically ignored income as a measure of ability to pay with the exception of the instructional support/PPEL and asbestos abatement. Attempts are now being made by a few legislators to modify our property only thinking and to include income as a criterion measure in the determination of the capacity or ability to pay. But please remember if income is utilized as a measure of ability and local revenue source, there is the need to equalize income among Iowa's districts. More on this later, which will give justification to the grade. **GRADE F**

9. Depreciation

The expenses associated with the decline in value of a fixed asset over time is depreciation, e.g., school buildings, buses, major equipment, etc. Depreciation does not exist with regard to governmental assets in Iowa. The only time you have "expense" in Iowa is when assets are purchased. If school districts are required to follow general accepted accounting principles (GAAP) for one purpose and use a solvency ratio for another, let's accept general recognized accounting principles for all purposes. In my opinion, depreciation expense and consequently facility replacement fund accumulation, should be recognized annually as a cost of production. **GRADE F**

Concluding Comments on Basic Economic and Business Principles

Correction of deficiencies noted in Part I of the report card will take considerable study, effort, and cooperation. Without attention to these basic principles, each ensuing school year will result in greater financial problems and/or increases in the current inequities among school districts. The neglect of a single principle is not a disaster. It is the neglect of several principles that results in failure of the system. Perhaps the negative impact of avoidance and neglect will be readily apparent when we review achievement in Part II of the report card.

GRADE FOR PART I - F

BREAK

PART II - SPEECH

Please direct your attention to the Achievement Section of the report card which focuses upon the basic contents and processes of the Iowa State School Finance Plan.

Discuss failure to equalize tax rates and the relationship or influence of property tax upon expenditure.

MENTAL WARM UP EXERCISE--GETTING READY FOR PART II

A warm-up by looking at some Iowa school finance inequities.

(NOTE: A narrative will be prepared for these charts)

A Short Drive to Inequity	4.0
Pupils by Assessed-Valuation Per Pupil Group	4.1
Assessed Valuation by Enrollment Group	4.2
Property Tax Levies & Per Pupil Assessed Valuation	4.3
Property Tax Levies & Per Pupil Assessed Valuation $r = -.74$	4.4

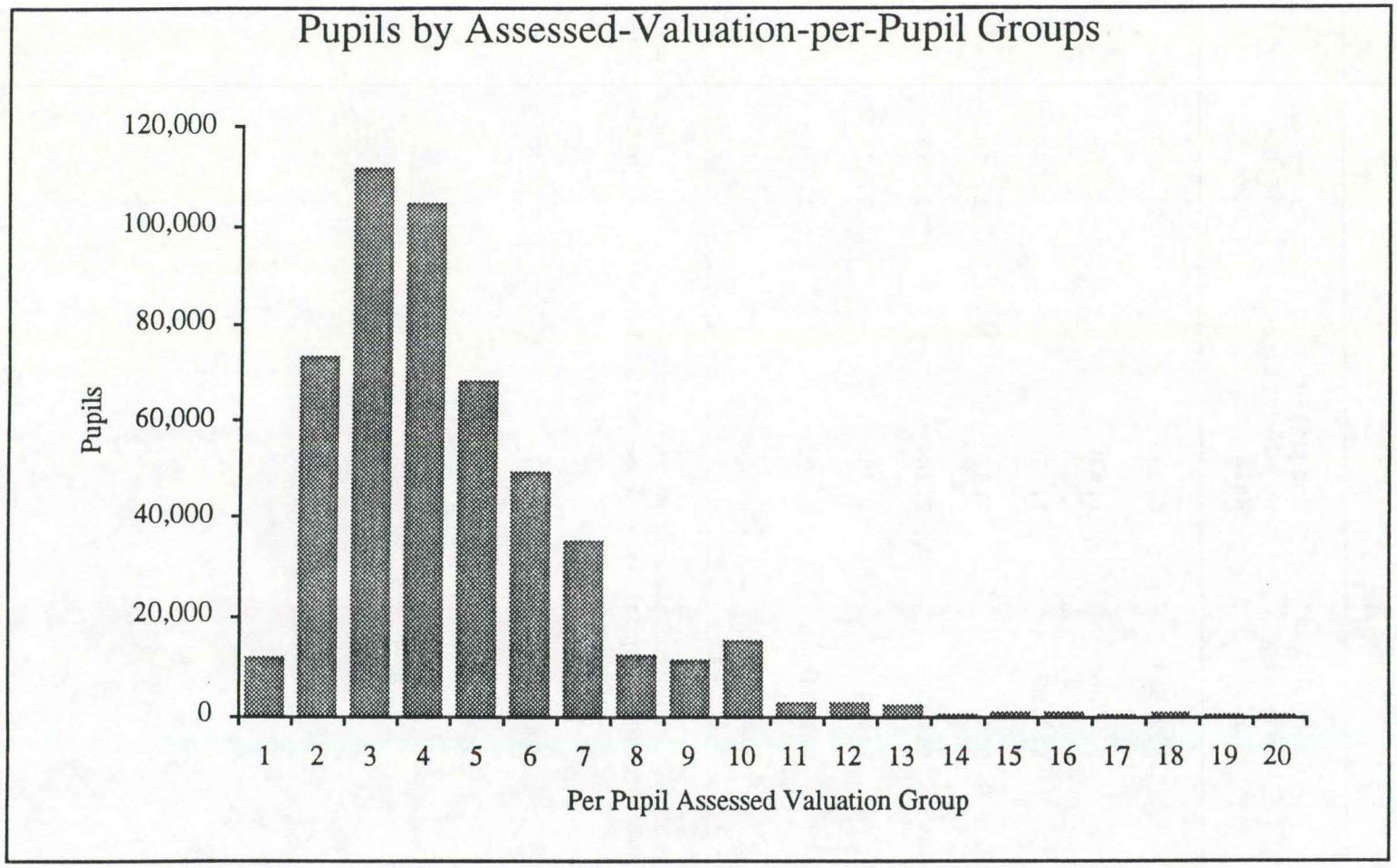
CHART 4.0

A SHORT DRIVE TO INEQUITY--
(FOR STUDENTS AND/OR PROPERTY TAXPAYERS)

District	School Tax Levy Per $1,000	Unequalized Local Dollars Raised	Taxes on $75,000 Home
Ames	$12.82*	1,349	$ 962
Ankeny	$19.50*	1,670	1,463
Saydel	$13.99*	1,654	1,049
Des Moines	$15.70*	1,388	1,178
West Des Moines	$14.09*	2,244	1,057
Norwalk	$21.71*	1,255	1,628
Carlisle	$21.84*	1,502	1,638
Southeast Polk	$18.98*	1,510	1,424

*The base levy of $5.40 is subtracted from the school tax levy. Equalization resulting from instructional support would be minimal and no adjustment has been made here.

CHART 4.1



Per Pupil Assessed Valuation Groups							
Group	Range of PPAV	Group	Range of PPAV	Group	Range of PPAV	Group	Range of PPAV
1	$70,000-89,999	6	170,000-189,999	11	270,000-289,999	16	370,000-389,999
2	90,000-109,999	7	190,000-209,999	12	290,000-309,999	17	390,000-409,999
3	110,000-119,999	8	210,000-229,999	13	310,000-329,999	18	410,000-429,999
4	120,000-149,999	9	230,000-249,999	14	330,000-349,999	19	430,000-449,999
5	150,000-169,999	10	250,000-269,999	15	350,000-369,999	20	> 450,000

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CHART 4.2

Comparison of Per Pupil Assessed Valuation by enrollment groupings

Group	Enrollment	Number of Districts	Number of Pupils	Average Per Pupil Assessed Valuation*	Standard Deviation
1	< 500	166	54,940	$199,384	$4013.86
2	500-999	143	98,040	163,302	1729.36
3	1,000-1,499	39	48,264	146,211	1175.41
4	1,500-1,999	29	49,140	134,436	771.75
5	2,000-2,999	16	39,035	144,981	738.45
6	> 3,000	25	200,975	132,364	418.92

*By pupil

CHART 4.3

Property Tax Levies and Per Pupil Assessed Valuation

Iowa School Districts - FY '93

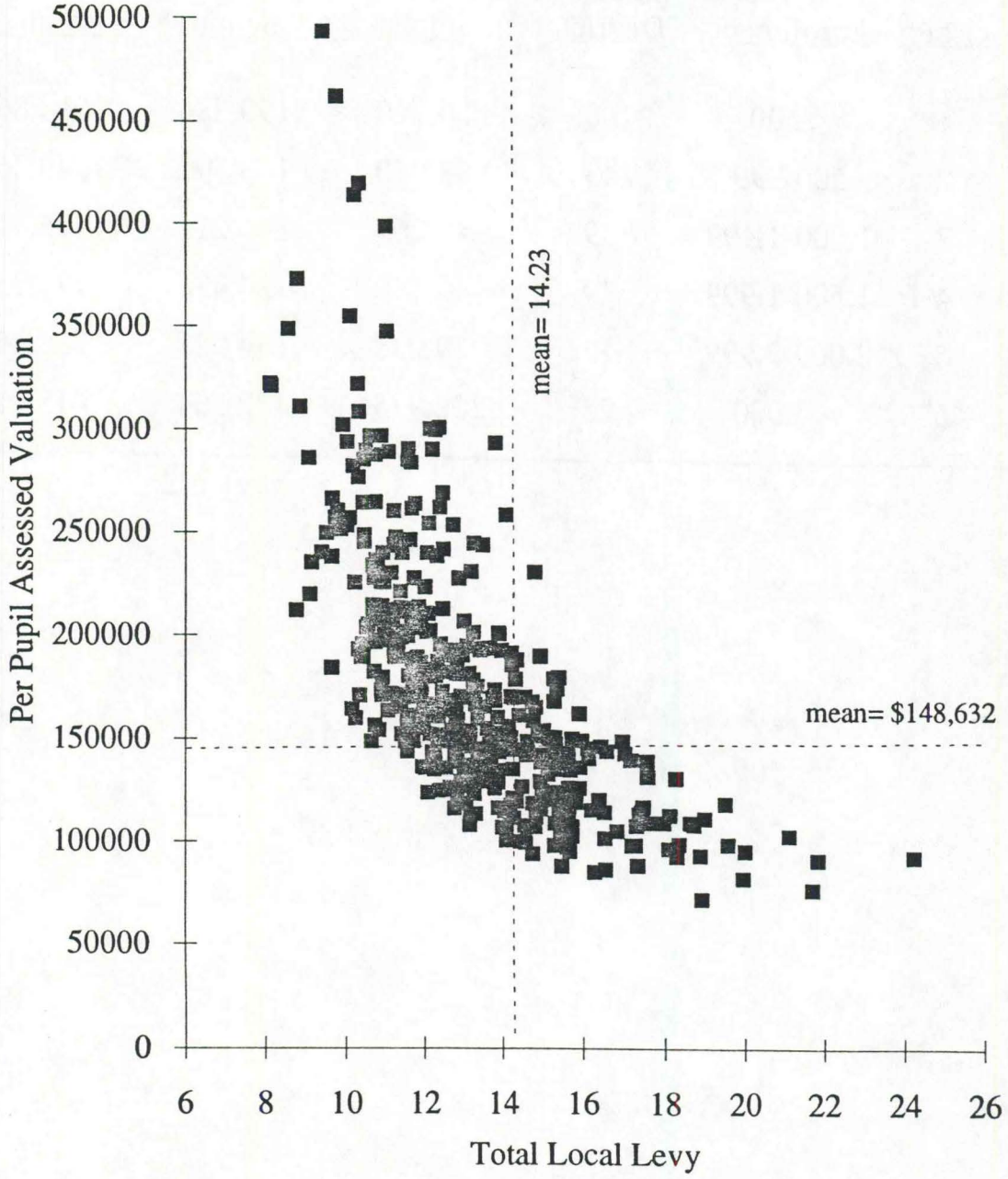

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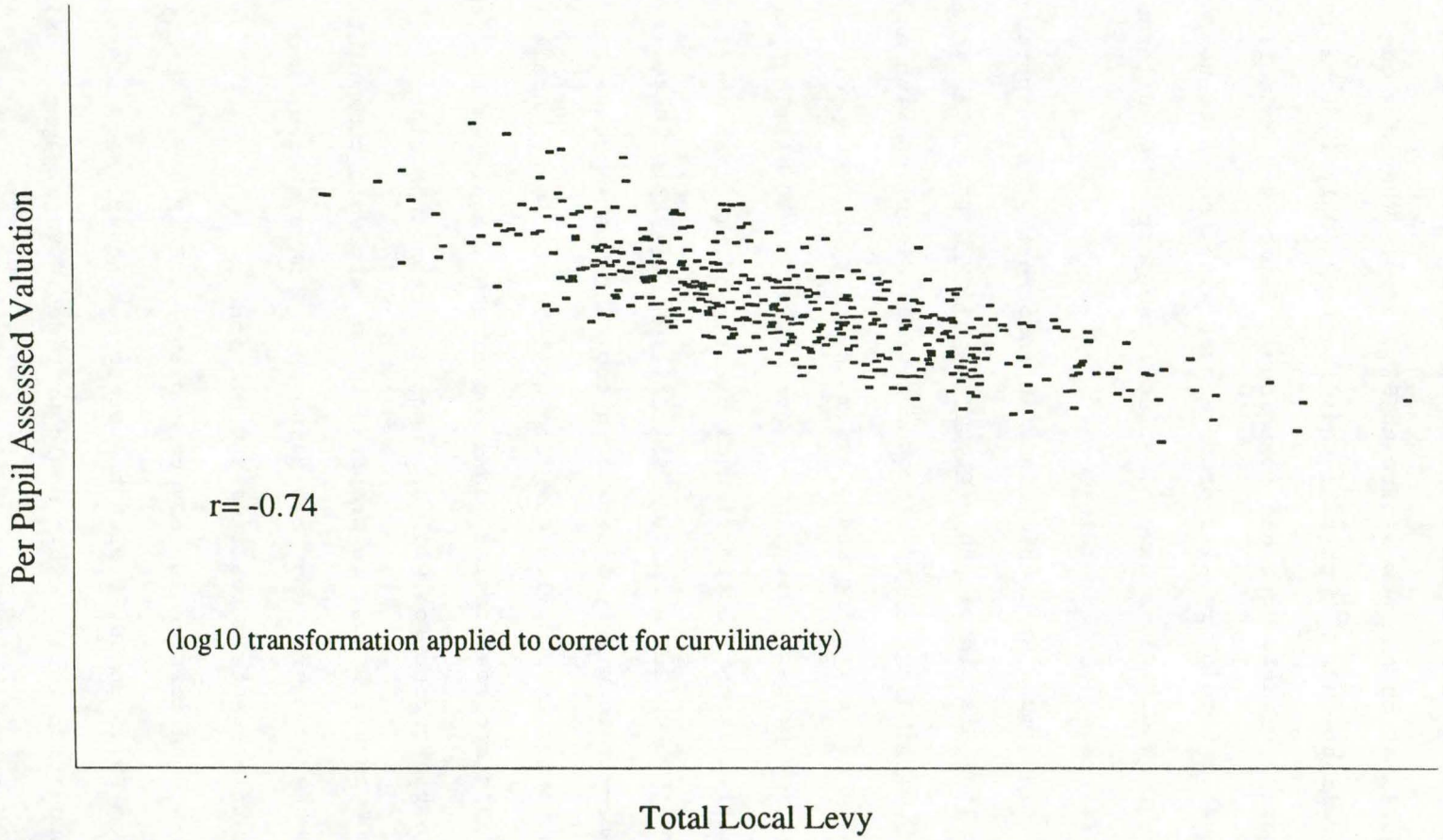
CHART 4.4

Property Tax Levies and Per Pupil Assessed Valuation in Iowa School Districts - FY '93



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10. Taxpayer Equalization - Regular Program

Today 83% of regular program costs and 79% of special education costs are equalized with regard to property taxes. We started in 1972 with 70% equalization and now we are at 83%. Wow! What's wrong with 100% equalization? Why partial equalization? Only in Iowa is 83% considered equal. Clearly Iowa has consciously defied the establishment of 100% or full equalization of regular program cost with regard to taxpayers. For 21 years the rich districts have benefited; the poor have suffered. Greed, stupidity, unfairness, you label it!

How much state aid money is incorrectly or inappropriately distributed to wealthy districts? An approximation (my best guess) is in the neighborhood of $50 million per year. In other words, districts with above average property value are receiving state aid money that, in my opinion, should go to below average property districts--approximately $50 million per year. There is no justification for the rich district windfall that over the history of the program would exceed one half billion dollars. There is no scandal, no fraud here--it is simply a lack of a common sense approach and failure to pay attention to detail. How long will it continue? Probably until the people of this state realize the magnitude of the inequities and demand correction. Clearly correction will be unpopular among the rich districts. If you support 100% equalization, be prepared to be labeled a communist. There also is another danger. Upon realizing what I have stated, some r
districts--state realizes $50 million.

Equalization is easy to achieve. **CHART 4.5.** Merely raise the base levy from $5.40 to $9.50 with the state making up the difference to a 100% foundation level. This would provide 100% taxpayer equalization for regular program costs without additional state support. But as all of you know

CHART 4.5

100% REGULAR PROGRAM COST EQUALIZATION
EASY AND WITHOUT COST TO STATE

Property Values Per Pupil	Plans: Current 83%	Plans: Proposed 100%	Difference
$100,000			
tax levy	$11.55	$9.50	-$2.05
state aid	$2,190	$2,665	+$205
$150,000			
tax levy	$9.50	$9.50	-0-
state aid	$2,190	$2,190	-0-
$200,000			
tax levy	$8.48	$9.50	+$1.02
state aid	$1,920	$1,715	-$205
$300,000			
tax levy	$7.48	$9.50	+$2.02
state aid	$1,380	$765	-$615

[1]Assume regular program cost of $3,615; foundation levels of $3,000 @ 83% and $3,615 @ 100%. Assumes state median per pupil assessed valuation of $150,000.

there would be winners and there would be losers which makes an equalization change difficult. And after all we are familiar with 83%. The impact of the 17% unequalized portion of regular program cost is approximately $600 per pupil. This translates into the following taxpayer equity problem.

CHART 5.0

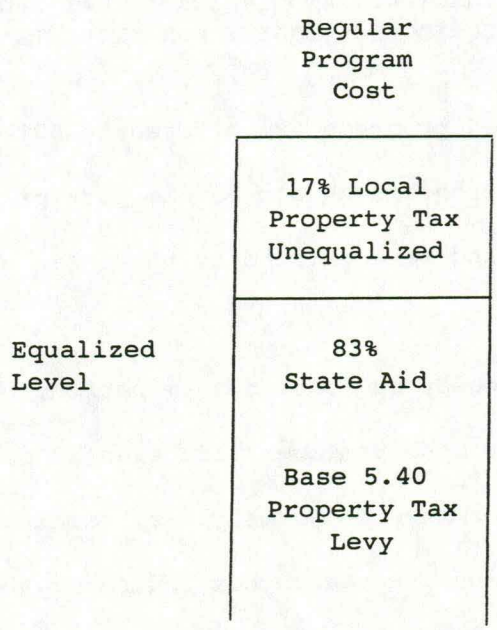
Is there fairness with regard to Iowa taxpayers with such a wide variation in tax levies? The answer is clearly no. Twenty-one years of failing to recognize and more nearly establish taxpayer equalization merits an F. **GRADE F**

CHART 5.0

IMPACT OF 17% UNEQUALIZED PROGRAM COSTS OR
APPROXIMATELY $600 PER PUPIL

Assessed Property Value Per Pupil	Tax Levy	Taxes on $60,000 Home
$100,000	$6	$360
$150,000*	$4	$240
$200,000	$3	$180
$300,000	$2	$120

*State mean is approximately $150,000 per pupil.



11. Taxpayer Equalization - Leeway and Local Expenditure Determinations

What is meant by leeway and local expenditure determinations? Both refer to programs that extend beyond the regular program costs within Iowa's foundation plan and which are funded totally by local funds (instructional support being the exception). Local determination includes talented and gifted; at-risk; the management levy group for worker's comp, unemployment, and early retirement; instructional support, program, PPEL and debt service. In Iowa local leeway and locally determined expenditures appear to range from less than $200 to over $1,000 per pupil for up to 90% of the districts. This gives rise to profound significant differences among districts with regard to taxpayer levies, taxpayer burdens, and most importantly student opportunities, i.e., the $600 unequalized (17%) plus the $200 to $1,000.

EXPLAIN CHART 6.0 AND INDICATE THAT THERE IS NO VERTICAL OR HORIZONTAL EQUITY FOR STUDENTS OR TAXPAYERS

When locally determined programs are offered to 50% or more of a state's student population, those programs should become part of the regular program costs within a state plan and be equalized by that plan with regard to taxpayer burden.

It is great to have leeway or local determination, but one must recognize the associated problems. Please remember that even if state aid equalization is offered for locally determined programs, there remains the problem of overcoming patron expectations. Research has indicated that districts with low expectations (frequently low property value or low income) will not initiate programs <u>regardless of equalized taxes or fairness</u>.

As I visit school districts I am becoming increasingly alarmed with regard to Iowa's aging population, citizen apathy, and in some cases citizens' militant opposition to public education. Clearly we have taken

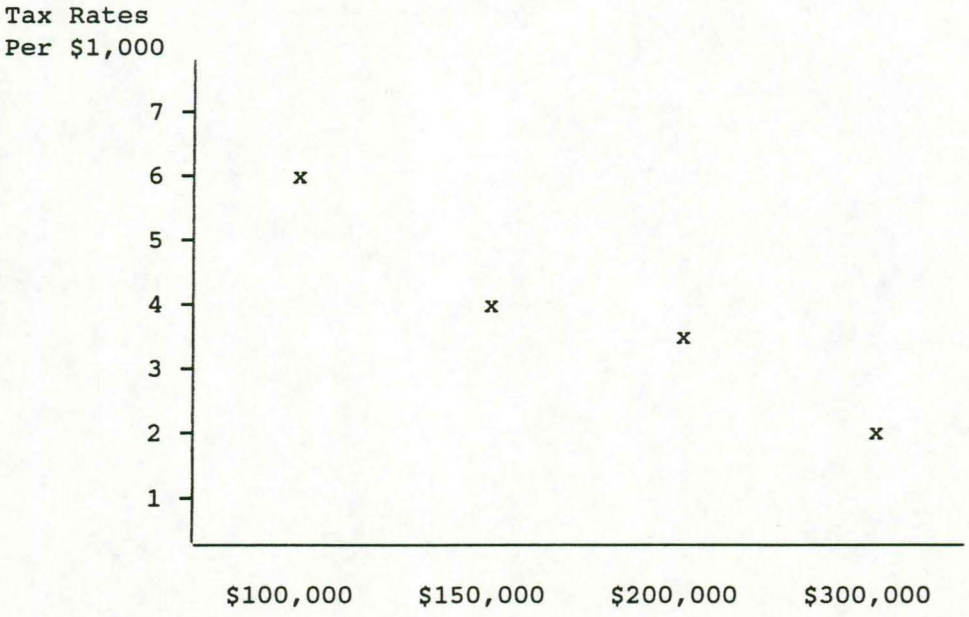
CHART 6.0

LOCALLY DETERMINED EXPECTATIONS--SOME EXAMPLES
(RANGE: 0 - $1,000)

Property Values	Local Levies	Taxes on $60,000 Home
If $100,000	$0 - $10.00	$0 - $600
If $150,000	$0 - $6.67	$0 - $400
If $200,000	$0 - $3.33	$0 - $200

Problem - for taxpayers--no vertical or horizontal equity

for students--variance in quantity and quality of programs



a thrashing from the previous two presidential administrations that offered little but criticism and vouchers. Clearly bashing and voucher proposals further divides our people and adds to the critics' cry to reduce school expenditures. California, thank goodness, voted no (2 to 1) on vouchers on November 2. Leeway and local determination in Iowa, as in all other states, need to be equalized. Because Iowa has failed to equalize taxes on locally determined funded programs, a grade of F is assigned.

12. Allowable Budget Growth

Buzz words can have profound impact! In this case "automatic pilot." Two years ago that label helped the demise of the school funding formula for allowable growth. We are now in an era of potential grave pilot error. I repeat pilot error. Future skies will be turbulent and we will have 496,600 students on board. These students, as well as the 50,000 who work with them will be placed at risk every year. It is obvious that in some years the plane may not fly; it will be grounded due to the insolvency or willingness of the company to fly. Too bad the FFA and the National Safety Board are exempt from ruling on the fitness of the school finance pilots in Iowa.

8.22A Revenue estimating conference.

1. The state revenue estimating conference is created consisting of the governor or the governor's designee, the director of the legislative fiscal bureau, and a third member agreed to by the other two.

2. The conference shall meet as often as deemed necessary, but shall meet at least quarterly. The conference may use sources of information deemed appropriate.

3. <u>By December 15 of each fiscal year the conference shall agree to a revenue estimate for the fiscal year beginning the following July 1</u>. That estimate shall be used by the governor in the preparation of the budget message under section 8.22 and by the general assembly in the budget process. If the conference agrees to a different estimate at a later meeting which projects a greater amount of revenue than the initial estimate amount agreed to by December 15, the governor and the general assembly shall continue to use the initial estimate amount in the budget process for that fiscal year. However, if the conference agrees to a different estimate at a later meeting which projects a lesser amount of revenue than the initial estimate amount,

the governor and the general assembly shall use the lesser amount in the budget process for that fiscal year. As used in this subsection, "later meeting" means only those later meetings which are held prior to the conclusion of the regular session of the general assembly.

86 Acts, ch 1245, Section 2045; 92 Acts, ch 1227, Section 2

257.8 State percent of growth--allowable growth.

1. *State percent of growth.* The state percent of growth for a budget year shall be established by statute which shall be enacted within thirty days of the submission in the base year of the governor's budget under section 8.21. The establishment of the state percent of growth for a budget year shall be the only subject matter of the bill which enacts the state percent of growth for a budget year.

We are in a lose, lose situation. Once again we are relegated to second class citizenship. And, we are to believe that education is one of the state's top priorities--First in the Nation in Education. I say fine (lower case fine), then let's plan and appropriate monies for education on a top priority not second class basis. Allowable growth today should be defined as the percentage that will balance the state's budget.

Iowa, A Place to Grow? - grow scared - scared of pilot error and scared each year of a major catastrophe. The education community must shoulder part of the blame with regard to allowable growth, however.

Clearly we have helped the local property taxpayers of the cities, and the counties. While helping them, we have shot ourselves in the foot.

I submit to you that we have expected the state to do too much and the local level too little. The partnership that was formed in 1972 with

approximately 40% state and 60% local funding has now gone to approximately 56% state and 44% local funding for regular program costs. This growth is one of the killing cancer to which I referred earlier. How and why has the dramatic shift in proportions taken place? By not increasing the $5.40 base levy for 21 years and by moving the foundation level from 70 to 83%, we have entrapped ourselves. A great break for property taxpayers, a great loss for education and students.

During the 70's and early 80's inflation and real dollar growth in property values along with enrollment decline dramatically softened or restricted the state's dollar share of funding for schools. However, that has now changed. When enrollment and property values remain constant, the state is faced with picking up 83% of the allowable growth increase. An enrollment increase of 1% costs $14.6 million. An increase/decrease of 1% in property value is worth $6 million. If enrollment and property values are constant and allowable growth is 5%, the state would face the burden of picking up 4.15% of the increase and the local .0085.

Chambers Hypothesis: <u>As long as the state is forced to pick up 75% or more of the annual cost increase of regular program costs, allowable growth will be severely restricted by the state</u>. We are destined to lose big time and to lose each year until the current plan is replaced. **SEE CHART 7.0**

Given the current dangers of pilot error, the delay of the budget process, including negotiations and our failure to recognize the unjustifiable heavy burden that is placed upon the state, an F is be awarded to all of us.

CHART 7.0

STATE FOUNDATION AID MODIFICATIONS
CAUSAL FACTORS AND CAUSE FOR CONCERN

	FY 95		Average Percent FY 92-94	Projection Based on 3 Year Average
1% Enroll =	$14.6M	x	1.14%	$16.3
1% Spec Educ =	1.3M	x	3.97%	5.2
1% Tax Valuation =	(40)M	x	1.17%	(4.7)
				16.8M
1% Allow Growth	16M	x	3.49%	55.8
				$72.6
FY 93 (4.15% Allow Growth)				50.5
FY 94 (2.1% Allow Growth)				51.6

Given an offset the State would be required annually to pick up 83% of the allowable growth increase.

NOTE: An annual regular student enrollment increase of .005 and a special education enrollment increase of .04 would require $12.5 million. To offset this an annual tax valuation increase of .03125 would be required, which is unlikely.

13. Enrollment Change Decline--Grade F

For failure to recognize the cost of decline (fixed cost) and the fact that between $40-50 million has disappeared from state school funds between FY92 and FY95 due to the elimination of budget guarantees, a grade of F is clearly warranted. When it was decided to move from the enrollment matrix to actual headcount, the regular program cost should have been increased by the dollar amount of fixed costs that were being recognized. Education had $50 million on the line--and education let it go without a protest, without a shout, without a cry, and without a whimper. $50 million should have been worth a great outburst. Education slept through this cool, well-calculated and well-designed move. Those involved surely laughed all the way to the state treasury. $50 million worth of laughs and astonishment--at our silence, and our ignorance. Clearly knowledgeable people knew what was happening financially with this move.

Who speaks for education? Where was the leadership in the Department of Education to fight to preserve the $50 million for education? Clearly education in Iowa suffered its greatest defeat of the 20th Century when the Governor was granted power to appoint the Director of Education. Shame on all of us for letting it happen. We are going to pay over and over for what never should have been. Do not expect fiscal innovation or leadership from DOE without the Governor's blessing and prior approval. As the legislature in Iowa is the super board, the Governor is now our super state superintendent of education with true power. The Director appointee is only a representation of the Governor. To be otherwise means a short tenure.

A fair and simple method to modify the enrollment provision would have been to increase the state's regular program costs by the percentage of previous funding for the budget guarantee. This idea was presented to the

1988 Interim Finance Study Committee by Chambers and Behle. The idea was then advanced one year after that by the Department of Education. We both failed. Our problem now is that the cost of decline is not recognized, we no longer have budget guarantees, and let's face it--we slept while 40 to 50 million dollars were taken away to balance the state's budget. **GRADE F**

14. Enrollment Increase - First Year Advance--Grade F

This one stinks! It merits the grade of capital F. The Johnston School District provides an excellent example. Johnston was asked to allocate nearly 9% of the previous year's base costs to fund the increase in enrollment in the fall of 1992. Why should students at Johnston be faced with a budget reduction per pupil because additional students enrolled in that district. Johnston's 1992-93 increase in enrollment exceeded the enrollment of over 40 school districts in Iowa. Imagine any one of those 40 districts being told by the Iowa General Assembly to conduct school with a budget of zero! Iowa City, West Des Moines, Urbandale, and others with annual enrollment gains face a similar significant problem each year. While SBRC can be utilized to request authorization for what can be raised locally, the state should drop its head in shame for failing to provide Iowa communities and children with state aid dollars for their education. As in negotiations, the claim of lack of ability to pay is not a legitimate excuse for the State of Iowa, it's simply an excuse and cop out. Once again, I raise the question, "Do we sincerely want to be first in the nation?" If education were a top priority, money would be made available.

15. Teacher Salary Supplements--Grade F

Q. Aid to education? A. Aid to teacher salaries. Were allocations made on the basis of financial equity or educational need for either phase II or III? No. It was done without regard to equity or need. According to the doctoral dissertation findings of Robert Schley, Iowa's model for distributing state funds to enhance teacher salaries was the worst among 8 allocation models examined.

Education got nearly 100 million dollars at the state trough. I predict that this special funding, especially phase III and perhaps phase II will disappear as did funding for enrollment decline. ISEA will not, thank goodness, remain silent on this one, however. From 1987-88 to 1992-93 Phase III monies dropped nearly 35% from $41.8 million to $27.3. Need money--"get it from phase dollars" will soon be the legislative cry or response to educators.

All of us support increased teacher salaries; we also know that the funding came because of the necessity of attracting votes in gubernatorial election. The trade off--the buy off? As one who would have strongly preferred 100 million dollars appropriated for educational improvement on the basis of educational and financial need, I assign an F to teacher salary supplements. There were other ways of improving teachers' salaries which were not attempted, nor considered.

16. Transportation--Grade F

This is an old saw with me as I have been back and forth, back and forth arguing this point with the Department of Education for well over 15 years. Perhaps I was second only to Wayne Dexler in arguing that transportation funding should not be part of the regular program cost and that funding should be equalized by the state. When children arrive at the schoolhouse door and there is less or more to spend on their education due to transportation, a great inequity exists. That has been the case for 21 years. There is over a $400 difference per pupil between the most and least expensive districts vis-a-vis transportation costs. Western Dubuque spends over $500 and Des Moines $66 per pupil which is the lowest in the state. There is a $300 difference between district transportation costs at the 10th and 90th percentiles. These inequities are without justification, without defense. They are an embarrassment.

It's time for a change, and I would hope we could resist internal fighting between large and small districts on this issue. If large districts need additional funding due to municipal overburden or the type of student being served, that type of funding should be considered separately.

The two diverse cost phenomena for transportation and student diversity should not be placed in the same tool box.

17. Open Enrollment--Grade F

I support open enrollment. The funding provisions, however, are without merit. Four years ago if a student were to leave your district for any reason you would receive fixed-cost funding for up to five years. Clearly, when a student leaves the district under open enrollment there are fixed-costs that must continue to be absorbed by the sending district. At the same time there are incremental costs that are incurred by the receiving district, and these costs are substantially less than the regular program cost allowance. Want to make money? Have a large open enrollment. Recruit, recruit. Want to lose money? Have a large "out" open enrollment. This one is easy to fix and the grade could quickly go from F to A with legislative action. Let's recognize fixed-costs for the sending district and incremental costs for the receiving district. On this latter point, I wonder what the interest would be if it were a break even--not a profit or loss situation for both districts. To financially penalize or reward districts because students open enrollment is without justification.

In 1991, Brad Colton studied Iowa's open enrollment policy. He surveyed parents as to the reasons why they chose to transfer their children to other districts. Nearly 40% of the parents responding to a survey cited family convenience or closer proximity to the receiving school as their reason for open enrolling. Other reasons for transferring include "general education benefits" (22%) and "atmosphere/values/philosophy" (18%). One has to wonder about the validity of such responses. That is, "how much do parents truly know about the new school's 'general education benefits' or 'atmosphere/values/philosophy' prior to enrolling?" My guess is that up to at least 90% of parents select open enrollment because of convenience and/or discontent. Those are not justifiable reasons to award or penalize Iowa districts. **GRADE F**

18. Fixed Costs--Grade F

Fixed-costs are those which remain to some degree when changes occur in the units of production. (E.g., heating, lighting, maintenance, buses, etc.) Fixed costs last but for a fixed period of time and usually declining over a 2-7 year period to zero and near zero cost. With the dropping of the enrollment matrix, the Iowa School Finance Plan no longer recognizes fixed costs. Business and industry may have fixed costs and recognize them, but evidently someone has decided in Iowa that they do not exist. You will recall that at one time fixed costs were recognized with regard to enrollment decline as 25% then we dropped to 20%, then we moved to a five-year percentage declining matrix then to zero with regard to student count, then to a 100% year to year budget guarantee, and now no guarantee. It's going to be disastrous to observe how nearly 40% of Iowa's school districts that are now on the budget guarantee stage multiple Houdini acts in fiscal 95. Many believe that there will be an emergency bailout provision made in the next legislative session. Don't bet the family farm on a bailout! **GRADE F**

19. Instructional Support - This one, believe it or not, merits a D

The D is assigned in recognition of the legislators' willingness to provide greater opportunities for local determination or leeway with some equalization. A grade of "A" would have been assigned here had it not been for four basic flaws in the plan. First, the formula was incorrectly written with the numerator and denominator transposed. **SEE CHART 8.0** Thus, we are holding to that great Iowa tradition of equalizing a little bit but not 100%.

Second, the provision to provide individual income surtax while seemingly fair is an attractive tax escape for corporations and a great tax injustice for individual taxpayers. In many school districts corporate property (commercial, industrial, personal, and utilities) represents 40-50% of the total taxable property valuation. Thus, whenever an individual income surtax is utilized corporations are exempt from that tax burden. **SEE CHART 9.0.** One superintendent recently shared with me the district's plan to utilize a 10% property and 90% income tax surcharge for Instructional Support. In that particular district it would have amounted to shifting 36% of the property tax burden from corporations to individuals property taxpayers. Scandal? No, but it should turn some faces red with anger, others with embarrassment. If not it's on the fringe. Business and industry should lend their support to income surtax.

Third, if property tax were utilized it would be deductible from state income tax while the income surtax cannot be deducted. This latter point could be corrected with an investment tax credit. The fourth objection is that the legislature has a double standard. It does not see need to bring to the taxpayer desired legislative programs for their approval while they ask another elected body, the board of education, to go to the taxpayer for approval. **GRADE D**

CHART 8.0

INSTRUCTIONAL SUPPORT
IOWA'S PLAN

$$1 - S\% \times \frac{SAV}{LAV}$$ (Assume $300 per pupil and 25% state support)

Where

S is State %
SAV is State Mean Assessed Value
LAV is Local Mean Assessed Value

Where AV is		Local %	Local $	Levy	State Aid
$100,000		62.50	$188	1.88	$112
$150,000	(mean)	75.00	$225	1.50	$75
$200,000		81.25	$244	1.22	$56

Chambers' Preferred Plan - Percentage Equalizing
(Assume 25% State Support)

$$1 - L\% \times \frac{LAV}{SAV}$$ (Assume $300 per pupil and 25% state support)

Where

L is Local % or 75%
LAV is Local Assessed Value Per Pupil x
SAV is State Assessed Value Per Pupil x

Where AV is		Local %	Local $	Levy	State Aid
$100,000		A = 50%	$150	1.50	$150
$150,000	(mean)	B = 75%	$225	1.50	$75
$200,000		C = 0	$300	1.50	$0

CHART 9.0

EXEMPT PROPERTY FOR WHICH NO INDIVIDUAL
INCOME SURTAX LIABILITY IS INCURRED

State-wide:	Commercial	15%
	Industrial	4%
	Personal/Real	3%
	Utilities	10%
	TOTAL	32%

Selected Large Cities - % of district property exempt if 80% surtax used:

	Corp Property	80% Corp Property Exempt
Burlington	39%	31.2
Cedar Rapids	33%	26.4
Council Bluffs	41%	32.8
Davenport	44%	35.2
Des Moines	48%	38.4
Dubuque	35%	28.0
Iowa City	42%	33.6
Sioux City	42%	33.6
Waterloo	38%	30.4

20.-21. Talented and Gifted and At-Risk--Grade F

The reason for the assignment of grade is that these programs are financed totally by local funds and as such generate inequality in terms of taxpayer burden among Iowa school districts.

22. Management Levy Group--Grade F

Once again Iowa has not considered capacity or ability to pay, rather the willingness of the local board to establish the levy. Thus we have wide variation in levies required to raise equal dollar amounts among Iowa school districts. It is clear that all are not adhering to what the levy was designed to do and in some cases there are blatant misuses.

23. Facilities Bonding/Debt Service, PPEL--Grade F

The advantage/disadvantage here is directly related to district property wealth. Twice the property wealth--half the levy for equal dollar values or twice the dollar value for an equal levy. Iowa is but one of 12 states that provides no state assistance/equalization for school facilities. Iowa is a place to grow--grow in old, inefficient, ineffective school buildings. **(JIM MITCHELL JOKE)**

When the burden of funding facilities is equalized among school districts and one vote beyond 50% results in passage, this area can have the F removed. Until that time the grade F must stand. I hope facility funding will be a topic of discussion tomorrow morning. I should also add that there are some very innovative ways for the state to fund debt services as well as determine ability to pay and equalize. Ed Gronlund, who will be with you tomorrow, will soon defend his dissertation on this topic and I believe his work will be very helpful to Iowa decision makers.

24. AEA Funding--Grade F

Two basic reasons for assigning the grade. No one ever determined how much funding was truly needed at the outset of the establishment of AEA's and basically we have been on a base plus funding formula since their start of operation in 1975. The fact that local funding is utilized and that funding is without equalization with regard to taxpayer is unjustified.

If open enrollment for students, what about open enrollment for districts vis-a-vis AEA's. That's real competition. Suggestion: if you opt out of the AEA, you keep say 75% of the pass through monies and run your own programs. If you can do for 75% what's being done for 100%, that's efficiency. Let the remaining dollars, the other 25% go to the AEA's--in recognition of the existing quasi Robin Hood principle.

25. State-Local Partnership

Sharing of burden, as noted earlier has been undergoing dramatic shifts. These shifts have taken place since the inception of the Iowa State School Foundation Plan in 1972. The state has moved from approximately 40% to 56% share of funding and the local from 60% to 44%.

Unless we move to a 50-50 partnership, we can anticipate that the state will continually be forced to find
ways of holding down budget growth for our schools. To do otherwise would require excessive state taxes. The 50-50 partnership idea may be the most important idea I have submitted today. Our current proportions are out of balance which leads the state-local partnership to fail. **GRADE F.**

GRADE FOR PART II - F

RECOMMENDATIONS

At the outset I indicated that one purpose was to recommend an interim procedure to assist Iowa districts until a new state finance plan can be enacted.

I have four recommendations for the interim:

1. The Business-Education Round Table should recommend and the Legislature concur to have business and industry pay their fair share of taxes vis-a-vis income surtax. This could be done by corporations paying 100% of their property taxes.

2. The Governor and Legislature should return the selection and appointment of the State Director to the State Board of Education with the Senate confirming the appointment.

3. The Legislature should enact 100% equalization aid for property for regular program costs. All Iowa districts would have the same tax levy, and no additional cost would be incurred by the state.

4. The Legislature should impose a moratorium on school legislation until a new state school finance plan is enacted and implemented, which will take two to three years.

CONCLUSION

Iowa's school finance plan has earned an F. If the criteria used for Iowa would have been utilized for other states, 45 to 48 other states would also have received an F. That, however, does not justify Iowa's F. In this case of Iowa "retention" is not the solution. Nor can the best solution be found in amending--surgery to the formula has failed. It's time for the old to go--it's time for a new state school finance plan--one that will be fair to all Iowans--fair to students, taxpayers, and school personnel. To develop and pretest a new finance plan will take time--one to two years.

We have the ability, knowledge, and intellect to develop the model state finance system in America. Nothing less should be our goal in keeping with the theme "First in the Nation in Education." Let's remove the F's and have all A's. Thank you.

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